

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7773
BILL NUMBER: HB 2064

DATE PREPARED: Jan 12, 1999
BILL AMENDED:

SUBJECT: Inheritance tax.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(28,082,935)	(56,165,870)
State Expenditures		(7,892,641)	(15,060,476)
Net Increase (Decrease)		(20,190,294)	(41,105,394)

LOCAL IMPACT	CY 1999	CY 2000	CY 2001
Local Revenues		56,165,870	56,165,870
Local Expenditures			
Net Increase (Decrease)		56,165,870	56,165,870

Summary of Legislation: This bill increases from 8% to 50% the amount of inheritance taxes retained by the county collecting the tax. It requires the county treasurer to transfer the inheritance tax money to the county family and children's fund. It also requires the state board of tax commissioners to reduce the county family and children's fund property tax levy by the amount of inheritance tax money transferred to the county family and children's fund in the preceding year.

Effective Date: January 1, 2000.

Explanation of State Expenditures: Beginning CY 2001, the state's expense for property tax replacement credits (PTRC) and homestead credit would be reduced under this bill. The \$66.9 million deposit into the county Family and Children's Fund would reduce the levy and therefore, the PTRC and homestead credit

paid on that levy. The state's PTRC expense would be reduced by about \$13.4 million and the homestead credit expense would be reduced by \$1.7 million for a total expenditure reduction of \$15.1 million in the first full fiscal year, FY 2002.

PTRC and homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any savings of PTRC and homestead credit expenditures would ultimately benefit the state General Fund.

Explanation of State Revenues: Passage of this bill would reduce the state share of inheritance tax by \$56.2 million per year. The first year of impact, FY 2000, would experience one-half of that amount, \$28.1 million. This amount will be retained by the counties based on the residence of the decedent. There will not be an overall increase in inheritance tax receipts, but rather a shift in the amount currently received by the state.

Based on the most recent revenue forecast, it is assumed that the State General Fund will receive \$136.7 million in Indiana Inheritance and Estate Tax in FY 99 and FY 2000. The portion attributable to resident Inheritance Tax (upon which counties retain their share) is \$123.03 million. This is based on historic data which shows that 10% of General Fund collections are attributable to the State Estate Tax. The following table shows the current share of inheritance tax and the proposed change for the first full fiscal year of impact, FY 2001:

	Current	This Proposal	Difference
State Share	\$123,030,000	\$66,864,130	(\$56,165,870)
Local Share	\$10,698,261	\$66,864,130	\$56,165,870
FY2001 Revenue	\$133,728,261	\$133,728,261	

Explanation of Local Expenditures:

Explanation of Local Revenues: The entire amount retained by the counties under this proposal, \$66.9 million, will be deposited in the county Family and Children's Fund in FY 2001. Currently, the 8% retained by the counties is transferred to the county General Fund.

Under the proposal, the State Tax Board would be required to reduce each county's maximum Family and Children's Fund levy by the amount of inheritance tax deposited into the fund in the preceding year. Family and Children's Fund levies are projected at \$238 million in CY 2001. The \$66.9 million inheritance tax deposit would reduce the Family and Children's Fund levy to about \$171 million. The actual amount of levy reduction would vary from year to year and county by county.

Under current law, the Family and Children's Fund is expected to receive approximately \$32 million from Excise tax and financial institutions tax distributions in CY 2001. These distributions are based on property tax levies. The reduction of the Family and Children's Fund levy would cause about \$9 million of these excise and FIT revenues that currently go to the Family and Children's Fund to be allocated to other funds and taxing units.

The county General Fund would lose the \$10.7 million that it currently receives from inheritance tax which is considered a miscellaneous revenue that does not effect the tax levy. This loss of revenue would mean that expenditures would have to be cut or another revenue source found.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: Revenue Technical Committee, December, 1998, Revenue Forecast; Division of Family and Children.